UNISYNC Reports Fiscal 2022 Financial Results

Toronto, ON December 30, 2022: Unisync Corp. (“Unisync") (TSX:"UNI") (OTCQX:“USYNF”) announces its audited financial results for the fourth quarter and fiscal year ended September 30, 2022. Unisync operates through two business units: Unisync Group Limited (“UGL”) with operations throughout Canada and the USA and 90% owned Peerless Garments LP (“Peerless”), a domestic manufacturing operation based in Winnipeg, Manitoba. UGL is a leading customer--focused provider of corporate apparel, serving many leading Canadian and American iconic brands. Peerless specializes in the production and distribution of highly technical protective garments, military operational clothing and accessories for a broad spectrum of Federal, Provincial and Municipal government departments and agencies.

Results for Fiscal 2022 versus Fiscal 2021

Revenue for the year ended September 30, 2022 of $96.3 million increased by $10.0 million or 12% from the prior year due on a $12.5 million revenue improvement in the UGL segment less a $3.0 million revenue decrease in the Peerless segment plus a $0.5 million decrease in intersegment sales eliminations. UGL segment revenue of $81.4 million accelerated by 18% over the prior year on a $17.0 million or 118% improvement in sales to the segment’s airline accounts, expanded product line sales to a leading Canadian quick service restaurant chain, less a $7.1 million decline in personal protective equipment (“PPE”) sales to a Canadian government entity. The dramatic increase in sales to the Company’s airline accounts was caused by the post pandemic rebound in the airline industry where staffing levels have surged above pre-pandemic levels to compensate for flight delays and employee absences and also included the impact of a new uniform rollout for WestJet employees which was shipped from June to September 2022. Sales volumes during new uniform rollouts are typically three times that of normal steady state replenishment levels of uniform sales.

Although Fiscal 2022 consolidated revenues were $10 million higher than Fiscal 2021, the top line was plagued by an unexpected additional wave of COVID followed by major delays in the receipt of offshore containers that saw some product order lead times increase from four months to six or more months. At the same time, airline demand soared back during the latter half of Fiscal 2022 requiring a massive hiring program that produced a rapid increase in demand for uniforms coupled with reduced allocation quantities to ensure they could dress new hires. These reduced allocations per employee didn’t get re-instated until recently. As a result, our number of orders shipped almost doubled but the per order dollar values dropped significantly. In turn, more inventory had to be ordered and maintained to accommodate the longer order lead times. This combination of events plus the onboarding of new accounts, created a bottleneck in our distribution facility in Guelph which further slowed our stocking, picking and shipping efforts.

The net affect was a massive build-up in the backlog of open orders which amounted to $14.7 million by the end of October, which is 4x our normal pre-pandemic levels, and an unprecedented increase in inventory on hand and in transit to $56.2 million at year end – up from $36.2 million at the same time last year and $49.3 million on June 30, 2022. The inventory in-transit amounted to $5.4 million as of September 30, 2022 and had increased by $4.3 million from $1 million as at the previous month end. We expect that inventory will remain at higher than normal levels for another 3-4 months.

The revenue decrease in the Peerless segment to $15.4 million was caused by the non-reoccurrence of PPE sales to the Department of National Defence (“DND”) and to the Government of Manitoba in 2022.

Gross profit of $19.5 million climbed by $3.7 million or 23% year over year and to 20.3% of revenue from 18.3% of revenue in the prior year on the change in customer and product mix as well as greater absorption of fixed costs on the increase in revenue. As a result of the higher margin mix of sales and fixed cost leverage on the higher volume of sales experienced in the UGL segment, a gross profit of $16.6 million or 20% of segment revenue was achieved compared to $12.2 million or 18% of segment revenue in the prior fiscal year. The Peerless segment recorded gross profit of $3.4 million in fiscal 2022, down $0.6 million or 15% from the previous year on the reduced level of revenue but the segment's gross profit margin improved to 22% of segment revenue from 20% in the prior fiscal year on account of the higher margin product mix of sales in the current year.

At $18.6 million or 19.2% of revenue, general and administrative expenses increased by $2.1 million or by 13% for the year ended September 30, 2022 against $16.4 million or 19.1% of revenue in the year before. The absolute increase in expenses occurred in the UGL segment where the rebound in airline sales and the addition of new accounts necessitated additional customer service personnel with a $1.0 million rise in wages. Employee benefits and recruitment costs rose $0.5 million with the increase in warehouse and customer service staff during tight labour market conditions for such personnel while data services, system maintenance, telecommunications and software licenses rose $0.4 million due to a greater number of users on the fully deployed ERP system and due to IT security improvements.

Total interest expense of $1.7 million for the year ended September 30, 2022 decreased by $0.5 million from the prior year on account of the repayment of $4.5 million in bank postponed shareholder advances and accrued interest and fees in late fiscal 2021 with funds received from mortgage loan advances totalling $10.0 million. In fiscal 2022, the Company incurred interest of $0.4 million on the mortgage loans at a lower fixed interest rate of 4.1% compared to $0.8 million in fiscal 2021 on the high interest bank postponed shareholder advances.

On a consolidated basis the Company reported a net loss of $1.3 million for the year ended September 30, 2022 against a loss of $2.6 million in the year before. Cash flow from operations, before non-cash working capital items and distributions to minority partner, was $4.8 million compared to $3.0 million for the year ended September 30, 2021.

Following the corporate restructure to a more focused leadership team announced on Feb 25, 2022 and the subsequent decision to withdraw our bid for the large DND operational clothing project, the Company terminated a number of redundant management positions. These positions represent a $1.46 million reduction in ongoing annual base compensation expense in the Canadian operations of UGL. The above net loss for fiscal 2022 was after expensing $1.43 million in non-recurring salary, bonus and severance expense related to this restructuring.

Results for Q4 2022 versus Q4 2021

Revenue for the three months ended September 30, 2022 of $25.3 million increased by $5.9 million or 27% over the three months ended September 30, 2021 as revenue jumped $6.6 million or 41% in the UGL segment, while revenue fell $0.5 million or 15% in the Peerless segment and intersegment sales were up $0.2 million. The rise in fourth quarter 2022 UGL segment revenue to $22.6 million was attributed to airline customer sector revenue growth of $5.5 million or 118% over the 4th quarter a year ago, expanded product line sales to a leading Canadian quick service restaurant chain and an uptick in sales volumes from hospitality industry customers in the United States, while PPE sales were down by $1.7 million from the same quarter last year. The decrease in the Peerless segment revenue to $2.9 million in the current quarter was due to a reduction in PPE product sales.

Gross profit for the three months ended September 30, 2022 of $5.6 million or 22% of revenue grew by $2.9 million and increased from 14% of revenue in the same period last year on account of the higher margin mix of sales and fixed cost leverage on the greater volume of sales. The UGL segment recorded gross profit of $4.9 million or 22% of segment revenue compared to $2.0 million or 12% of segment revenue in the same quarter of the prior fiscal year. The Peerless segment recorded gross profit of $0.7 million or 25% of segment revenue in the fourth quarter of fiscal 2022 against $0.8 million or 22% of segment revenue in the same quarter of the prior fiscal year.

At $5.2 million, total general and administrative expenses for the three months ended September 30, 2022 were up $1.4 million or 36% from the three months ended September 30, 2021 primarily because of increases in the UGL segment of $0.4 million in cost of living related employee pay adjustments, of $0.3 million in customer service staff additions, $0.2 million in employee severance accruals and $0.1 million in employee benefits and recruitment costs.

The Company's reported a net loss of $0.5 million in the quarter ended September 30, 2022 compared to a net loss of $1.5 million in the same quarter last year for the reasons cited above. Cash flow from operations, before non-cash working capital items and distributions to minority partner, was $1.1 million for the three months ended September 30, 2022 versus negative $0.4 million for the three-month period ended September 30, 2021

More detailed information is contained in the Company's Consolidated Financial Statements for the fiscal year ended September 30, 2022 and Management Discussion and Analysis dated December 28, 2022 which may be accessed at www.sedar.com.

Business Outlook

The Company's North American airline accounts are experiencing increased demand and have returned to pre-pandemic passenger volumes in 2022. The Company expects that this will continue to cause a strong increase in uniform sales to its airline accounts and when complimented by recent new account additions, will result in an improving revenue and profitability picture. Recently the flow of offshore ocean shipments has begun to improve, and the costs of container shipments has declined from the inflated levels experienced during the pandemic. The Company believes that these trends will allow it to reduce its order backlog and to right size the quantity of uniform products held in its distribution centres over the coming months.

In addition to the reduction in ongoing administrative costs, the above referenced strategic restructuring has allowed our key executives to concentrate on our core business and more actively pursue larger managed workwear opportunities. As part of this restructuring, Unisync concluded the sale of our New Jersey based business unit in December for US$1.5 million. This business sector operated fairly independently as Red The Uniform Taylor which specialized in the design and sub-contracted domestic production of one-off custom specialty garments.

Unisync remains committed and focused on its expansion and growth into the US market. After efforts initiated this past year, UGL has been shortlisted and entered into advanced discussions with a number of upcoming major corporate image wear programs totalling close to US$100 million annually. Additionally, UGL has been added as an approved supplier to an extensive list of major customers that are also scheduled to come to market during the 2023 calendar year. With the previously announced hiring of a seasoned VP Strategy and Business Development leading the US expansion and UGL's strong reputation and customer references, the Company is expecting that these new opportunities will have a significant impact on future revenue growth and profitability.

On Behalf of the Board of Directors

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Forward Looking Statements

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